

UTAH LEGAL SERVICES, INC.

(A NONPROFIT ORGANIZATION)

FINANCIAL STATEMENTS

WITH

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

YEARS ENDED JUNE 30, 2006 AND 2005

ACRONYMS

ABA	American Bar Association
AG	Attorney General
ALG	Association of Local Governments
AOG	Association of Governments
BJA	Bureau of Justice Affairs
CFDA	Catalog of Federal Domestic Assistance
DOA	Utah Division on Aging
DOJ	Department of Justice
FEP	Federal Employment Program
GAD	General Assistance/Disability
HHS	United States Department of Health and Human Services
IOLTA	Interest on Lawyers Trust Accounts
LSC	Legal Services Corporation
OMB	Office of Management and Budget
PAI	Private Attorney Involvement
SLVP	Senior Lawyer Volunteer Project
TCAP	Tribal Court Assistance Program
ULS	Utah Legal Services
VAWA	Violence Against Women Act
VOCA	Victims of Crime Act

UTAH LEGAL SERVICES, INC.

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Burnham & Schumm, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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A Professional Corporation
Officers:
Lonnie K. Burnham, C.P.A.
Ted Schumm, C.P.A.

REPORT OF INDEPENDENT AUDITORS'

To the Board of Trustees of
Utah Legal Services, Inc.
Salt Lake City, Utah

We have audited the accompanying statements of financial position of Utah Legal Services, Inc. (a nonprofit organization) as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

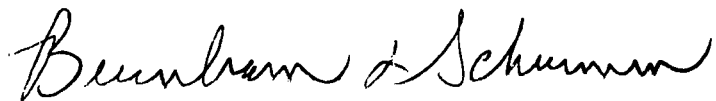
In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Utah Legal Services, Inc. as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2006, on our consideration of Utah Legal Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide

an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Utah Legal Services, Inc. taken as a whole. The schedule of functional expenses and schedules of support and expenses are presented for the purposes of additional analysis and is not a required part of the financial statements of the Organization. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the Organization. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Salt Lake City, Utah
October 17, 2006



UTAH LEGAL SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2006 AND 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current Assets:		
Cash	\$ 619,650	\$ 360,171
Certificates of deposit	874,859	750,000
Client escrow funds	8,257	5,474
Grants receivable	130,842	204,524
Unconditional promises to give	109,415	74,782
Prepaid expenses	15,117	38,564
Advances and other	14,362	2,746
Total current assets	1,772,502	1,436,261
Property and equipment, at cost, net	79,065	108,801
Other assets, deposits	12,055	12,055
Total Assets	<u>\$1,863,622</u>	<u>\$1,557,117</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 97,655	\$ 32,899
Accrued payroll and related liabilities	105,325	82,954
Accrued vacation	90,059	90,000
Client trust deposits	8,257	5,474
Current portion obligations under capital lease	1,313	17,528
Total Current Liabilities	<u>302,609</u>	<u>228,855</u>
Obligations under capital lease, less current portion	--	1,472
Net assets:		
Unrestricted:		
Operations	891,321	678,237
Fixed assets	79,065	108,801
	<u>970,386</u>	<u>787,038</u>
Temporarily Restricted:		
Legal Services Corporation	357,551	459,840
Non - LSC	233,076	79,912
	<u>590,627</u>	<u>539,752</u>
Permanently Restricted	--	--
Total Net Assets	<u>1,561,013</u>	<u>1,326,790</u>
Total Liabilities and Net Assets	<u>\$1,863,622</u>	<u>\$1,557,117</u>

The accompanying notes are an integral part of
these financial statements.

UTAH LEGAL SERVICES

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Unrestricted Net Assets:		
Support:		
Federal and state financial assistance	\$2,598,823	\$2,351,520
Other grants and contract revenue	233,299	294,030
In-kind contributions	85,007	118,375
Interest income	50,500	8,283
Other	<u>7,641</u>	<u>4,004</u>
	<u>2,975,270</u>	<u>2,776,212</u>
Net assets released from restrictions:		
Restrictions satisfied by payments	464,970	361,350
United Way and IOLTA funding for the year	<u>74,782</u>	<u>66,533</u>
	<u>3,515,022</u>	<u>3,204,095</u>
Expenses:		
Program services	3,002,835	2,673,070
Support services:		
Administrative, management and general	250,569	200,024
Fund raising	<u>78,270</u>	<u>65,176</u>
	<u>3,331,674</u>	<u>2,938,270</u>
Increase in unrestricted net assets	<u>183,348</u>	<u>265,825</u>
Temporarily Restricted Net Assets:		
United Way, IOLTA and SLVP funding for next year	122,333	74,782
Federal Support:		
Legal Services Corporation	357,551	459,840
Department of Justice	110,743	5,130
Net assets released from restrictions:		
Restrictions satisfied by payments and expiration of time	<u>(539,752)</u>	<u>(427,883)</u>
Increase in temporarily restricted net assets	<u>50,875</u>	<u>111,869</u>
Permanently restricted net assets	<u>--</u>	<u>--</u>
Increase in net assets	234,223	377,694
Net Assets at beginning of year	<u>1,326,790</u>	<u>949,096</u>
Net Assets at end of year	<u>\$1,561,013</u>	<u>\$1,326,790</u>

The accompanying notes are an integral part of these financial statements.

UTAH LEGAL SERVICES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Increase in net assets	\$ 234,223	\$ 377,694
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	50,743	55,433
Loss on disposal of fixed assets	--	4,475
(Increase) decrease in grants receivable	73,682	(71,684)
(Increase) in unconditional promise to give	(34,633)	(8,249)
(Increase) in advances and other	(11,616)	(441)
(Increase) decrease in prepaid expenses	23,447	(26,520)
Increase (decrease) in accounts payable	64,756	(3,788)
Increase (decrease) in accrued payroll	22,371	(8,182)
Increase in accrued vacation	<u>59</u>	<u>--</u>
Net increase in cash from operating activities	<u>423,032</u>	<u>318,738</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(21,007)	(36,315)
Purchase of certificate of deposit	<u>(124,859)</u>	<u>(750,000)</u>
Net decrease in cash from investing activities	<u>(145,866)</u>	<u>(786,315)</u>
Cash flows from financing activities:		
Repayments on obligations under capital lease	<u>(17,687)</u>	<u>(18,600)</u>
Net decrease in cash from financing activities	<u>(17,687)</u>	<u>(18,600)</u>
Net increase (decrease) in cash	259,479	(486,177)
Cash balance at beginning of year	<u>360,171</u>	<u>846,348</u>
Cash balance at end of year	<u>\$ 619,650</u>	<u>\$ 360,171</u>
Supplemental disclosure of cash flow information:		
Interest paid during the year	<u>\$ 1,622</u>	<u>\$ 3,129</u>
Income taxes paid during the year	<u>\$ --</u>	<u>\$ --</u>

The accompanying notes are an integral part of
these financial statements.

UTAH LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

1. Nature of Organization and Significant Accounting Policies

Organization

Utah Legal Services, Inc., a nonprofit corporation, was established under the laws of the State of Utah on June 7, 1976. The Organization is dedicated to providing legal services of a civil nature to persons unable to pay for such services in all counties within the State of Utah.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Notes to Financial Statements - Continued

Grants Receivable

Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables from grants and contracts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable receivable. Changes in the valuation allowance have not been material to the financial statements.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Property and equipment are being depreciated over estimated useful lives of three to ten years using a straight-line method. The Organization capitalizes expenditures for property and equipment in excess of \$5,000.

Property and equipment acquired with funds from the various sources is considered to be owned by ULS while used in the program or in future authorized programs. However, the funding sources have a reversionary interest in the assets purchased with their respective funds.

Revenue Recognition

The Organization recognizes grant funds from LSC as support on a straight-line basis over the grant period. Funds remaining unused at the end of an accounting period are carried forward in the applicable net assets. The LSC net assets are subject to the provisions of LSC's Fund Balance Regulation. LSC may, at its discretion, request reimbursement for expenses, the return of funds or both as a result of noncompliance by the Organization with the terms of the grant. In addition, if the Organization terminates its legal assistance activities, all unused funds are to be returned to LSC.

Revenues are recognized as funds are received on the LSC and other non cost reimbursement contracts and as costs are incurred, or units of service are provided on the cost reimbursement contracts.

The methods used to recognize revenues do not necessarily coincide with the flow of cash. Consequently, receivables have been recorded for amounts earned on the contracts for which cash has not been received. Conversely, temporarily restricted net assets have been recorded where grant/contract funds received in cash exceed the earned amounts.

Notes to Financial Statements - Continued

Contributions and support, including unconditional promises to give, are recorded as made. All contributions and support are available for unrestricted use unless specifically restricted by the grantor/donor. Contributions that are restricted by the grantor/donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which contributions are recognized. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years, if any, are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Noncash Contributions

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, the Organization has made no provision for federal or state income taxes in the accompanying financial statements.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Notes to Financial Statements - Continued

Allocation of Expenses

In some cases, common expenses are incurred which support the work performed under more than one grant or contract. Such expenses are allocated between the grants and contracts based on the percentage of time spent by ULS staff on the grant or contract. All grants and contracts, including the components of LSC funding (except PAI) are charged to the extent of the grant or contract budget. Excess expenses over revenue on programs with LSC eligibility screening are charged to LSC Basic, those with differing eligibility guidelines are charged to other unrestricted sources.

2. Cash - Credit Risk

The Organization has deposits and certificates of deposit totaling \$1,504,180 and \$1,133,827 at two banks at June 30, 2006 and one bank at June 30, 2005, respectively. This exceeds the \$100,000 covered by federal depository insurance by \$1,304,180 and \$1,033,827, respectively.

3. Certificates of Deposit

At June 30, 2006, the Organization has certificates of deposit at two banks totaling \$874,859. The first has a balance of \$772,144. The nine month certificate earns interest at 4.16% and matures on November 23, 2006. The second has a balance of \$102,715. The nine month certificate earns interest at 4.03% and matures on July 17, 2006. Both certificates of deposit are included in deposits exceeding the FDIC insurance, see Note 2.

At June 30, 2005, the Organization has a certificate of deposit in the amount of \$750,000. The one year certificate earns interest at 2.91% and matures on February 23, 2006. This certificate is included in deposits exceeding the FDIC insurance, see Note 2.

4. Client Trust Accounts

The Organization holds funds in trust for its clients relating to settlements awarded by the courts and deposits held for filing and other fees. The balance of such accounts is included as both an asset and liability of the Organization.

Notes to Financial Statements - Continued

5. Grants Receivable

Grants and contracts receivable at June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
And Justice For All	\$ --	\$ 65,600
Health and Human Services	56,616	7,051
Salt Lake County - Division of		
Aging - Title III	8,750	3,105
Title III - All Other	10,501	4,890
Title XX	1,700	315
State of Utah - Criminal Justice	27,609	26,541
Department of Justice - LAVA	--	674
State of Utah - GAD, FEP	18,920	95,242
Other	<u>6,746</u>	<u>1,106</u>
Total Grants Receivable	<u>\$130,842</u>	<u>\$204,524</u>

6. Unconditional Promises to Give

The amount due for unconditional promises to give consists of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Allocation for the next year:		
United Way	\$ 76,915	\$49,782
IOLTA	<u>32,500</u>	<u>25,000</u>
	<u>\$109,415</u>	<u>\$74,782</u>

The amounts from unconditional promises to give at June 30, 2006 and 2005 are due within one year. Although actual grant payments may vary, differences between the amount recorded and collected have historically been insignificant. Accordingly, no provision is made for uncollectible amounts.

7. Restrictions on Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
For subsequent periods:		
United Way	\$ 76,915	\$ 49,782
IOLTA	32,500	25,000
Private Donor	12,918	--
Federal support not expended:		
Legal Services Corporation	357,551	459,840
Department of Justice	<u>110,743</u>	<u>5,130</u>
	<u>\$590,627</u>	<u>\$539,752</u>

There are no permanently restricted net assets at June 30, 2006 and 2005.

Notes to Financial Statements - Continued

8. Property and Equipment

The following is a summary of property and equipment as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Property and equipment	\$282,383	\$281,546
Less accumulated depreciation	<u>203,318</u>	<u>172,745</u>
Property and equipment, net	<u>\$ 79,065</u>	<u>\$108,801</u>

Property and equipment acquired with grant funds are subject to certain restrictions on the sale or other disposition of the property as specified by the grantor agency. Also, if the grantor discontinues funding, all property and equipment acquired with grant funds may be recovered by the grantor.

Depreciation expense for the years ended June 30, 2006 and 2005 was \$50,743 and \$55,433, respectively.

9. Obligations Under Capital Lease

Obligations under capital lease consists of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Lease payable to two leasing companies, payable in monthly installments totaling \$1,811 including interest from 8% to 14%, final payment due August 8, 2006, collateralized by computers with a book value of \$3,347 and \$19,000, respectively.	<u>\$ 1,313</u>	<u>\$19,000</u>
Total capital lease obligations	1,313	19,000
Total current portion of capital lease obligations	<u>1,313</u>	<u>17,528</u>
Total capital lease obligations less current portion	<u>\$ --</u>	<u>\$ 1,472</u>

Maturities of capital lease obligations are as follows:

<u>June 30,</u>	
2007	<u>\$1,313</u>
	<u>\$1,313</u>

Notes to Financial Statements - Continued

10. Lease Commitments

Utah Legal Services, Inc. leases office space for their Salt Lake, Ogden, Provo, and Cedar City offices. Each Office is leased under a separate lease agreement. Each lease contains a defunding clause making the lease cancelable upon 60-90 days notice if ULS loses its funding from Legal Services Corporation. Lease payments for the years ended June 30, 2006 and 2005 amounted to \$193,412 and \$197,873, respectively. The lease payments are classified as space costs in the accompanying financial statements.

For all offices maintained by ULS, the related future minimum lease payments (based on leases with terms of one year or more) are as follows:

<u>June 30,</u>	<u>Amount</u>
2007	\$182,180
2008	130,319
2009	50,663
2010	18,304
2011	--
	<u>\$381,466</u>

11. Private Attorney Involvement (PAI) Expenditures

The assurances given by ULS as a condition for approval of the LSC Basic Field grant include an assurance and certification that at least the minimum amount of LSC funds prescribed by LSC rules, regulations, guidelines, and instructions will be provided for the involvement of private attorneys in the delivery of legal assistance to the eligible clients.

45 CFR 1614.1 defines the minimum amount of funds to be devoted to involvement of private attorneys as "an amount equal to at least twelve and one-half percent (12.5%) of the recipient's LSC annualized basic field award."

Based on these assurances, ULS is required to expend \$208,134 on PAI during the year ended June 30, 2006. As noted in the following summary, ULS exceeded the requirement by \$67,667.

Notes to Financial Statements - Continued

	<u>PAI</u>
LSC annualized basic field award at 12.5%	<u>\$208,134</u>
Expenses:	
Salaries	\$158,184
Employee benefits	37,080
Contract services	44,445
Space costs	11,845
Travel	6,137
Consumable supplies	2,743
Telephone	2,592
Equipment expense	3,936
Litigation	1,946
Library expense	2,289
Licenses and fees	476
Insurance	1,063
Training	1,438
Miscellaneous	<u>1,627</u>
	<u>275,801</u>
Expenses in excess of requirement	<u>\$ 67,667</u>

12. Tax Sheltered Annuity Plan

Utah Legal Services sponsors a 403 (b) salary reduction plan that covers employees. Employees are eligible to participate in salary reduction contributions on their hire date. With respect to non-salary reduction contributions, employees are eligible to participate if they have completed six months of service and have attained age 21. Salary reduction contributions are limited in any year to a certain dollar amount set by law. For the years ended June 30, 2006 and 2005, Utah Legal Services matching contributions amounted to \$37,321 and \$25,640, respectively.

13. Major Grantor

During the year ended June 30, 2006 and 2005, Utah Legal Services received \$1,800,889 and \$1,827,408, respectively, from Legal Services Corporation. This represents 50.5% and 55.1% of total revenues for the years ended June 30, 2006 and 2005, respectively. A loss of funding from this grantor would have a materially adverse effect on the financial condition of ULS.

Notes to Financial Statements - Continued

14. Donated Services

During the years ended June 30, 2006 and 2005, the Organization recorded donated services of \$85,007 and \$118,375, respectively. During the years ended June 30, 2006 and 2005, the Organization received approximately 5,300 and 7,400 hours of service from volunteers valued at approximately \$16 per hour.

15. Excess Fund Balance

At June 30, 2006, the Organization has an LSC fund balance of \$357,551, which is properly reported as a temporarily restricted net asset in the accompanying financial statements. In accordance with regulation 45 CFR 1628 the Organization, without prior approval, may not expend LSC funds carried over from one year to the next in excess of 10% of LSC support. The allowable portion of the fund balance is \$183,319. The amount in excess of the allowable portion is \$174,232. As of the date of this report, the Organization has not requested a waiver for the excess.

At June 30, 2005, the Organization has an LSC fund balance of \$459,840. The allowable portion of the fund balance is \$182,044. The amount in excess of the allowable portion is \$277,796. As of December 8, 2005, LSC granted the Organization's request to carryover the excess fund balance.

GOVERNMENTAL AUDITING STANDARDS REPORTS
AND SINGLE AUDIT INFORMATION

UTAH LEGAL SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Contract Number	Federal Expenditures
<u>Legal Services Corporation</u>			
Legal Services Corporation	N/L	74500	\$1,349,298
Legal Services Corporation	N/L	74500	586,627
Total Legal Services Corporation			<u>1,935,925</u>
<u>US Department of Health and Human Serv. (HHS)</u>			
Dept. of Health & Human Services	93.048	90AM2703/03	165,358
Passed Through State of Utah:			
Department of Workforce Services	93.558	066102	91,820
Davis County	93.044	N/A	2,259
Mountainlands Assoc of Govts	93.044	N/A	6,650
Southeastern UT AOG	93.044	N/A	3,000
San Juan County	93.044	N/A	1,187
Six County Aging Program	93.044	N/A	4,877
Five County Aging Program	93.044	N/A	7,000
Bear River Assoc of Govt-Title III	93.044	N/A	4,713
Uintah County Aging Program	93.044	N/A	1,251
Uintah Basin Aging Program	93.044	N/A	892
Weber County Title III	93.044	N/A	4,000
Tooele County Title XX	93.667	N/A	14,500
Tooele County Aging Program			
Title III	93.044	N/A	3,796
Salt Lake County Title XX	93.667	AE-04172-C	10,000
Passed Through State of Utah Through Salt Lake County:			
Dept of Aging Services	93.044	AE-1911-C	46,990
Total US Dept of HHS			<u>368,293</u>
<u>US Department of Justice</u>			
Department of Justice	16.524	2005-WL-AX-0052	371,165
Passed Through State of Utah:			
Commission on Criminal and Juvenile Justice	16.575	05-VOCA-53	74,595
Commission on Criminal and Juvenile Justice	16.575	05-VOCA-54	6,400
Commission on Criminal and Juvenile Justice	16.588	05-VAWA-36/ 04-VAWA-30	60,954
Commission on Criminal and Juvenile Justice	16.588	05-VAWA-44	9,294
Passed Through Bureau of Justice Affairs:			
Tribal Court Assistance Program	16.608	2004-DD-BX-1120	22,500
Passed Through Utah Attorney Generals Office:			
Safe Passage	16.588	2004-X0268-UT-WR	26,467
Total US Department of Justice			<u>571,375</u>
Total Federal Financial Assistance			<u>\$2,875,593</u>

N/A = No contract number provided in the agreement.
N/L = No Federal CFDA number is available.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Utah Legal Services, Inc. and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

UTAH LEGAL SERVICES, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2006

	<u>Supportive Services</u>			
	<u>Fund Raising</u>	<u>Management & General</u>	<u>Total</u>	<u>Program Services</u>
	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>
Salary - attorney	\$ 43,619	\$ 67,823	\$ 111,442	\$ 925,223
Salary - other	7,296	80,847	88,143	806,421
Employee benefits	9,439	35,965	45,404	418,874
Contract services	3,537	18,202	21,739	213,241
Space costs	3,574	15,668	19,242	183,018
Travel	1,073	6,584	7,657	77,343
Consumable supplies	781	3,492	4,273	40,801
Telephone	754	3,353	4,107	39,184
Equipment expenses	4,131	5,207	9,338	57,880
Litigation	234	1,448	1,682	17,014
Library expenses	694	3,028	3,722	35,368
Licenses and fees	134	630	764	7,368
Insurance	328	1,406	1,734	16,414
Training expenses	229	1,404	1,633	16,485
In-kind expense	--	--	--	85,007
Miscellaneous	1,812	1,581	3,393	17,017
Depreciation	635	3,931	4,566	46,177
Total Expenses	<u>\$ 78,270</u>	<u>\$ 250,569</u>	<u>\$ 328,839</u>	<u>\$3,002,835</u>
				<u>\$3,331,674</u>

The accompanying notes are an integral part of these financial statements.

UTAH LEGAL SERVICES, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2005

	<u>Supportive Services</u>		
	<u>Fund Raising</u>	<u>Management & General</u>	<u>Program Services</u>
	<u>Total</u>	<u>Total</u>	<u>Total</u>
Salary - attorney	\$ 35,651	\$ 56,103	\$ 838,604
Salary - other	8,613	68,794	763,903
Employee benefits	7,319	24,228	307,076
Contract services	2,640	12,406	157,236
Space costs	4,438	14,848	188,191
Travel	1,011	4,671	59,207
Consumable supplies	699	2,675	33,908
Telephone	904	3,175	40,241
Equipment expenses	620	1,916	24,285
Litigation	123	586	7,421
Library expenses	871	2,994	37,944
Licenses and fees	196	541	6,860
Insurance	306	1,071	13,580
Training expenses	690	827	10,486
In-kind expense	--	--	118,375
Miscellaneous	250	869	11,010
Depreciation	782	3,997	50,654
Loss on disposal of assets	63	323	4,089
Total Expenses	<u>\$ 65,176</u>	<u>\$ 200,024</u>	<u>\$ 2,673,070</u>
			<u>\$ 2,938,270</u>

The accompanying notes are an integral part of these financial statements.

UTAH LEGAL SERVICES, INC.
SCHEDULE OF SUPPORT AND EXPENSES
YEAR ENDED JUNE 30, 2006

SUMMARY

	LSC	Department of Justice	Other	Property	Total
Support					
Grants and contracts	\$1,800,889	\$ 682,118	\$ 584,110	\$ --	\$3,067,117
Other	<u>32,747</u>	<u>64,447</u>	<u>401,586</u>	<u>--</u>	<u>498,780</u>
	<u>1,833,636</u>	<u>746,565</u>	<u>985,696</u>	<u>--</u>	<u>3,565,897</u>
Expenses					
Salary - attorney	671,885	172,643	192,137	--	1,036,665
Salary - other	550,258	162,457	181,849	--	894,564
Employee benefits	297,016	82,248	85,014	--	464,278
Contract services	71,685	89,663	73,856	--	235,204
Space costs	131,615	28,710	41,935	--	202,260
Travel	52,255	24,343	8,402	--	85,000
Consumable supplies	28,281	8,187	8,606	--	45,074
Telephone	24,700	10,510	8,081	--	43,291
Equipment expense	28,458	17,215	21,545	--	67,218
Litigation	10,155	3,890	4,651	--	18,696
Library expense	23,976	7,307	7,807	--	39,090
Licenses and fees	5,941	1,045	1,146	--	8,132
Insurance	11,579	3,026	3,543	--	18,148
Training expense	15,519	2,261	338	--	18,118
In-kind expense	--	26,674	58,333	--	85,007
Miscellaneous	12,602	773	6,811	--	20,186
Depreciation	<u>--</u>	<u>--</u>	<u>--</u>	<u>50,743</u>	<u>50,743</u>
	<u>1,935,925</u>	<u>640,952</u>	<u>704,054</u>	<u>50,743</u>	<u>3,331,674</u>
Excess (deficiency) of support over expenses	(102,289)	105,613	281,642	(50,743)	234,223
Property acquisition					
Property disposition	--	--	(21,007)	21,007	--
Increase (decrease) in net assets	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Beginning net assets	(102,289)	105,613	260,635	(29,736)	234,223
Ending net assets	<u>459,840</u>	<u>5,130</u>	<u>753,019</u>	<u>108,801</u>	<u>1,326,790</u>
	<u>\$ 357,551</u>	<u>\$ 110,743</u>	<u>\$1,013,654</u>	<u>\$ 79,065</u>	<u>\$1,561,013</u>

The accompanying notes are an integral part of these financial statements.

UTAH LEGAL SERVICES, INC.
SCHEDULE OF SUPPORT AND EXPENSES
YEAR ENDED JUNE 30, 2005

SUMMARY

	LSC	Department of Justice	Other	Property	Total
Support					
Grants and contracts	\$1,827,408	\$ 491,490	\$ 497,592	\$ --	\$2,816,490
Other	<u>3,313</u>	<u>43,988</u>	<u>452,173</u>	--	<u>499,474</u>
	<u>1,830,721</u>	<u>535,478</u>	<u>949,765</u>	--	<u>3,315,964</u>
Expenses					
Salary - attorney	594,006	159,729	176,623	--	930,358
Salary - other	496,020	152,551	192,739	--	841,310
Employee benefits	207,332	60,365	70,926	--	338,623
Contract services	48,347	79,935	44,000	--	172,282
Space costs	138,743	27,327	41,407	--	207,477
Travel	38,014	19,771	7,104	--	64,889
Consumable supplies	28,043	2,809	6,430	--	37,282
Telephone	32,373	3,811	8,136	--	44,320
Equipment expense	14,502	4,152	8,167	--	26,821
Litigation	3,060	2,876	2,194	--	8,130
Library expense	30,799	2,715	8,295	--	41,809
Licenses and fees	5,086	1,135	1,376	--	7,597
Insurance	9,296	2,687	2,974	--	14,957
Training expense	8,762	1,266	1,975	--	12,003
In-kind expense	--	8,445	109,930	--	118,375
Miscellaneous	5,176	774	6,179	--	12,129
Depreciation	--	--	--	55,433	55,433
	<u>1,659,559</u>	<u>530,348</u>	<u>688,455</u>	<u>55,433</u>	<u>2,933,795</u>
Excess (deficiency) of support over expenses	171,162	5,130	261,310	(55,433)	382,169
Property acquisition	--	--	(36,315)	36,315	--
Property disposition	--	--	--	(4,475)	(4,475)
Increase (decrease) in net assets	171,162	5,130	224,995	(23,593)	377,694
Beginning net assets	288,678	--	528,024	132,394	949,096
Ending net assets	<u>\$ 459,840</u>	<u>\$ 5,130</u>	<u>\$ 753,019</u>	<u>\$ 108,801</u>	<u>\$1,326,790</u>

The accompanying notes are an integral part of these financial statements.

UTAH LEGAL SERVICES, INC.
SCHEDULE OF SUPPORT AND EXPENSES
JUNE 30, 2006
LSC FUNDS

	Basic Field	Migrant	Native American	TIG	June 30, 2005 Carryover	Total
Support						
Grants and contracts	\$1,665,071	\$ 61,311	\$ 74,507	\$ --	\$ --	\$1,800,889
Other	<u>32,747</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>32,747</u>
	<u>1,697,818</u>	<u>61,311</u>	<u>74,507</u>	<u>--</u>	<u>--</u>	<u>1,833,636</u>
Expenses						
Salary - attorney	538,260	24,777	6,744	--	102,104	671,885
Salary - other	398,452	49,887	26,336	--	75,583	550,258
Employee benefits	221,702	23,072	10,187	--	42,055	297,016
Contract services	58,896	1,028	589	--	11,172	71,685
Space costs	96,563	11,539	5,196	--	18,317	131,615
Travel	37,607	5,694	1,821	--	7,133	52,255
Consumable supplies	20,182	3,341	930	--	3,828	28,281
Telephone	17,840	2,424	1,052	--	3,384	24,700
Equipment rental and maintenance	17,973	4,842	2,234	--	3,409	28,458
Litigation	6,478	2,354	94	--	1,229	10,155
Library expense	16,140	3,384	1,391	--	3,061	23,976
Dues and fees	4,361	611	142	--	827	5,941
Insurance	8,362	1,166	465	--	1,586	11,579
Training expense	12,117	1,084	19	--	2,299	15,519
In-kind expense	--	--	--	--	--	--
Miscellaneous	9,528	1,215	50	--	1,809	12,602
Depreciation	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
	<u>1,464,461</u>	<u>136,418</u>	<u>57,250</u>	<u>--</u>	<u>277,796</u>	<u>1,935,925</u>
Excess (deficiency) of support over expenses	233,357	(75,107)	17,257	--	(277,796)	(102,289)
Property acquisition	--	--	--	--	--	--
Property disposition	--	--	--	--	--	--
Fund transfers	<u>(75,107)</u>	<u>75,107</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Increase (decrease) in net assets	158,250	--	17,257	--	(277,796)	(102,289)
Beginning net assets	<u>132,562</u>	<u>--</u>	<u>49,482</u>	<u>--</u>	<u>277,796</u>	<u>459,840</u>
Ending net assets	<u>\$ 290,812</u>	<u>\$ --</u>	<u>\$ 66,739</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 357,551</u>

The accompanying notes are an integral part of these financial statements.

UTAH LEGAL SERVICES, INC.
SCHEDULE OF SUPPORT AND EXPENSES
JUNE 30, 2005
LSC FUNDS

	Basic Field	Migrant	Native American	TIG	June 30, 2004 Carryover	Total
Support						
Grants and contracts	\$1,681,068	\$ 61,360	\$ 74,702	\$ 10,278	\$ --	\$1,827,408
Other	<u>3,313</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>3,313</u>
	<u>1,684,381</u>	<u>61,360</u>	<u>74,702</u>	<u>10,278</u>	<u>--</u>	<u>1,830,721</u>
Expenses						
Salary - attorney	438,460	34,757	6,518	11,262	103,009	594,006
Salary - other	354,660	46,826	14,635	459	79,440	496,020
Employee benefits	148,452	19,759	3,886	1,984	33,251	207,332
Contract services	31,249	3,447	6,531	121	6,999	48,347
Space costs	98,199	13,773	3,920	855	21,996	138,743
Travel	24,712	4,450	2,612	705	5,535	38,014
Consumable supplies	20,198	1,737	1,441	143	4,524	28,043
Telephone	23,579	2,606	724	183	5,281	32,373
Equipment rental and maintenance	8,983	2,536	773	198	2,012	14,502
Litigation	2,304	60	180	--	516	3,060
Library expense	21,259	3,792	788	198	4,762	30,799
Dues and fees	3,408	792	98	26	762	5,086
Insurance	6,525	951	290	68	1,462	9,296
Training expense	5,174	2,153	(155)	431	1,159	8,762
In-kind expense	--	--	--	--	--	--
Miscellaneous	3,982	232	57	13	892	5,176
Depreciation	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
	<u>1,191,144</u>	<u>137,871</u>	<u>42,298</u>	<u>16,646</u>	<u>271,600</u>	<u>1,659,559</u>
Excess (deficiency) of support over expenses	493,237	(76,511)	32,404	(6,368)	(271,600)	171,162
Property acquisition	--	--	--	--	--	--
Property disposition	--	--	--	--	--	--
Fund transfers	<u>(82,872)</u>	<u>76,511</u>	<u>--</u>	<u>6,368</u>	<u>--</u>	<u>--</u>
Increase (decrease) in net assets	410,358	--	32,404	--	(271,600)	171,162
Beginning net assets	--	--	17,078	--	271,600	288,678
Ending net assets	<u>\$ 410,358</u>	<u>\$ --</u>	<u>\$ 49,482</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 459,840</u>

The accompanying notes are an integral part of these financial statements.

UTAH LEGAL SERVICES, INC.
SCHEDULE OF SUPPORT AND EXPENSES

JUNE 30, 2006

DOJ FUNDS

	Thru BJA TCAP	Thru State of Utah VAWA	Thru UT AG Safe Passage	Total
Support				
Grants and contracts	\$ 481,908	\$ 70,248	\$ 26,467	\$ 682,118
Other	--	37,378	--	64,447
	<u>481,908</u>	<u>107,626</u>	<u>26,467</u>	<u>746,565</u>
Expenses				
Salary - attorney	94,558	31,905	11,987	172,643
Salary - other	98,437	23,559	2,218	162,457
Employee benefits	41,118	18,309	3,090	82,248
Contract services	68,787	1,620	3,232	89,663
Space costs	22,161	--	806	28,710
Travel	11,927	2,323	3,065	24,343
Consumable supplies	4,857	2,749	213	8,187
Telephone	5,894	3,212	183	10,510
Equipment rental and maintenance	11,064	5,433	371	17,215
Litigation	3,166	132	340	3,890
Library expense	4,387	2,469	158	7,307
Dues and fees	803	--	24	1,045
Insurance	2,428	--	76	3,026
Training expense	865	93	693	2,261
In-kind expense	--	15,822	--	26,674
Miscellaneous	713	--	11	773
Depreciation	--	--	--	--
	<u>371,165</u>	<u>107,626</u>	<u>26,467</u>	<u>640,952</u>
Excess (deficiency) of support over expenses	110,743	--	--	105,613
Property acquisition	--	--	--	--
Property disposition	--	--	--	--
Increase (decrease) in net assets	110,743	--	--	105,613
Net assets beginning of year	--	--	--	5,130
Net assets end of year	<u>\$ 110,743</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 110,743</u>

The accompanying notes are an integral part of these financial statements.

UTAH LEGAL SERVICES, INC.
SCHEDULE OF SUPPORT AND EXPENSES

JUNE 30, 2005

DOJ FUNDS

	LAVA	Thru BJA TCAP	Thru State of Utah VAWA	VOCA	Thru UT AG Safe Passage	Total
Support						
Grants and contracts	\$ 279,430	\$ 47,647	\$ 65,970	\$ 91,800	\$ 6,643	\$ 491,490
Other	65	--	19,236	24,658	29	43,988
	<u>279,495</u>	<u>47,647</u>	<u>85,206</u>	<u>116,458</u>	<u>6,672</u>	<u>535,478</u>
Expenses						
Salary - attorney	74,242	3,987	40,000	38,027	3,473	159,729
Salary - other	58,966	17,546	28,253	47,227	559	152,551
Employee benefits	28,218	4,966	10,000	16,619	562	60,365
Contract services	71,269	4,541	2,260	1,443	422	79,935
Space costs	23,472	3,568	--	--	287	27,327
Travel	9,046	4,381	3,124	2,195	1,025	19,771
Consumable supplies	1,407	629	299	409	65	2,809
Telephone	1,943	718	400	667	83	3,811
Equipment rental and maintenance	2,188	865	450	565	84	4,152
Litigation	2,833	--	43	--	--	2,876
Library expense	776	812	377	691	59	2,715
Dues and fees	1,005	118	--	--	12	1,135
Insurance	2,343	312	--	--	32	2,687
Training expense	1,094	3	--	168	1	1,266
In-kind expense	--	--	--	8,445	--	8,445
Miscellaneous	693	71	--	2	8	774
Depreciation	--	--	--	--	--	--
	<u>279,495</u>	<u>42,517</u>	<u>85,206</u>	<u>116,458</u>	<u>6,672</u>	<u>530,348</u>
Excess (deficiency) of support over expenses	--	5,130	--	--	--	5,130
Property acquisition	--	--	--	--	--	--
Property disposition	--	--	--	--	--	--
Increase (decrease) in net assets	--	5,130	--	--	--	5,130
Net assets beginning of year	--	--	--	--	--	--
Net assets end of year	<u>\$ --</u>	<u>\$ 5,130</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 5,130</u>

The accompanying notes are an integral part of these financial statements.

Burnham & Schumm, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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A Professional Corporation
Officers:
Lonnie K. Burnham, C.P.A.
Ted Schumm, C.P.A.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of
Utah Legal Services, Inc.
Salt Lake City, Utah

We have audited the financial statements of Utah Legal Services, Inc. (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Utah Legal Services, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Utah Legal Services, Inc. in a separate letter dated October 17, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Utah Legal Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and

accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item B. 06-1. We also noted certain additional matters that we have reported to management of Utah Legal Services, Inc. in a separate letter dated October 17, 2006.

This report is intended solely for the information and use of the finance committee, management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Salt Lake City, Utah
October 17, 2006

Burnham & Schumm

Burnham & Schumm, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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A Professional Corporation
Officers:
Lonnie K. Burnham, C.P.A.
Ted Schumm, C.P.A.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of
Utah Legal Services, Inc.
Salt Lake City, Utah

Compliance

We have audited the compliance of Utah Legal Services, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, and the Legal Services Corporation (LSC) Audit Guide and Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Utah Legal Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of finding and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Utah Legal Services, Inc.'s management. Our responsibility is to express an opinion on Utah Legal Services, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, Non-Profit Organizations, and the Legal Services Corporation (LSC) Audit Guide and Compliance Supplement. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Utah Legal Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Utah Legal Services, Inc.'s compliance with those requirements.

In our opinion, Utah Legal Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for year ended June 30, 2006.

However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs, item B. 06-1.

Internal Control Over Compliance

The management of Utah Legal Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Utah Legal Services, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the Legal Services Corporation (LSC) Audit Guide and Compliance Supplement.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Utah Legal Services, Inc.'s ability to administer a major federal program in accordance with the applicable requirement of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of finding and questioned costs, items C. 06-1 and 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Trustees, management, finance committee, others within the organization and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Salt Lake City, Utah
October 17, 2006



Burnham & Schumm, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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A Professional Corporation
Officers:
Lonnie K. Burnham, C.P.A.
Ted Schumm, C.P.A.

INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

We have audited the financial statements of Utah Legal Services, Inc. (a nonprofit organization) for the year ended June 30, 2006, and have issued our report thereon dated October 17, 2006. As part of our audit, we have audited Utah Legal Services, Inc.'s compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to its major State assistance program as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. Utah Legal Services, Inc. received the following major State assistance program from the State of Utah:

General Assistance (Department of Workforce Services)

Utah Legal Services, Inc. also received the following nonmajor grant which is not required to be audited for specific compliance requirements: (However, this program was subject to testwork as part of the audit of Utah Legal Services, Inc.'s financial statements.)

Utah State Legislature, H.B. 1 (Administrative Office of the Courts)

The management of Utah Legal Services, Inc. is responsible for its compliance with the compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Utah Legal Services, Inc.'s compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Utah Legal Services, Inc. complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2006.

Salt Lake City, Utah
October 17, 2006

Burnham & Schumm

UTAH LEGAL SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

A. Summary of Auditor's Results

1. The Independent Auditors' Report contained on page 1 of this report, issues an unqualified opinion on the financial statements of Utah Legal Services, Inc.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. One instance of noncompliance material to the financial statements of Utah Legal Services, Inc. was disclosed during the audit. The finding and questioned costs is reported in part B of this schedule.
4. The audit report on Utah Legal Services, Inc., for the year ended June 30, 2006 contains two reportable conditions in internal control over major programs. The conditions are not reported as a material weakness. The reportable conditions are reported in part C of this schedule.
5. The auditor's report on compliance for the major federal awards program for Utah Legal Services, Inc. expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for Utah Legal Services, Inc. are reported in part C of this schedule.
7. Utah Legal Services, Inc. maintained two major programs for the year ended June 30, 2006. The major programs were funded by Legal Services Corporation, CFDA #09.745000, and the Department of Justice CFDA # 16.524.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Utah Legal Services, Inc. does not qualify as a low risk auditee under paragraph .530 of OMB Circular A-133.

Findings and Questioned Costs for Federal Awards - Continued

B. Findings - Financial Statements - Audit

DEPARTMENT OF JUSTICE

06-1 CFDA # 16.524; Legal Assistance for Victims Grant Program (LAV); #2005-WL-AX-0052; Grant period - July 1, 2005 thru June 30, 2006

Statement of condition: Due to an accounting error, ULS overcharged and billed the LAV contract which is a cost reimbursement contract. The actual costs incurred were charged to another contract thereby creating the condition of double billing for the same costs.

Criteria: The contract is a cost reimbursement contract.

Cause of the condition: Costs erroneously billed to LAV were actually charged to another contract.

Questioned costs: The overcharged and questioned cost amounted to \$165,632.

Recommendation: We recommend that ULS review all contracts they are awarded and discuss key provisions with personnel. As a result of the overcharge ULS should refund the overcharged amount.

C. Findings and Questioned Costs for Major Federal Awards Programs Audit

LEGAL SERVICES CORPORATION

06-1 CFDA # 09.745000; Recipient Number 745000; Grant period - July 1, 2005 through June 30, 2006.

Statement of condition: ULS policies and LSC Case Service Reporting Handbook require cases to be closed in a timely manner after completion of services. During our compliance testing, it was noted that in one out of 60 case files examined, a case was closed on September 29, 2006 when substantially all work was completed by August 17, 2005.

Criteria: LSC Case Service Reporting Handbook section 3.3 and ULS policies require cases to be closed in a timely manner.

Effect of condition: ULS could be reporting erroneous case data due to untimely closing of cases.

Cause of the condition: Case managers are not always reviewing open cases to ensure they are timely closed in the case reporting system.

Findings and Questioned Costs for Federal Awards - Continued

Questioned costs: No questioned costs related to this finding.

Recommendation: We recommend that ULS review all open cases to ensure they are closed timely in the case reporting system.

LEGAL SERVICES CORPORATION

06-2 CFDA # 09.745000; Recipient Number 745000; Grant period - July 1, 2005 through June 30, 2006

Statement of condition: ULS policies, and LSC regulations require that a potential client's U.S. citizenship be verified and recorded in determining client eligibility. In testing of case files, it was noted that in one of 60 cases reviewed, ULS had not documented U.S. citizenship and services were still provided.

Criteria: 45 CFR 1626.66 and ULS policies require that a citizen seeking representation must attest in writing in an LSC approved form to the fact of his or her United States citizenship.

Effect of condition: ULS could be servicing clients who are not eligible because they are not U.S. citizens.

Cause of the condition: Intake personnel need training to ensure that U.S. citizenship is documented in the case file.

Questioned costs: No questioned costs related to this finding.

Recommendation: We recommend that ULS provide training to intake personnel to ensure U.S. citizenship is documented in all case files.

D. Summary of Prior Findings

There are no prior findings.

Burnham & Schumm, P.C.

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Lonnie K. Burnham, C.P.A.
Ted Schumm, C.P.A.

To the Board of Trustees
of Utah Legal Services, Inc.
Salt Lake City, Utah

In planning and performing our audit of the financial statements of Utah Legal Services, Inc. for the year ended June 30, 2006, we considered the Organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the Organization's internal control in our report dated October 17, 2006. This letter does not affect our report dated October 17, 2006, on the financial statements of Utah Legal Services, Inc.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized on the following pages.

This report is intended solely for the information and use of the Board of Trustees of Utah Legal Services, Inc., management, and Legal Services Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Burnham & Schumm

Salt Lake City, Utah
October 17, 2006

UTAH LEGAL SERVICES, INC.

MANAGEMENT POINTS

JUNE 30, 2006

Reportable Conditions

Condition

During the course of fieldwork, it came to our attention that the Department of Justice Legal Assistance for Victims Grant Program (LAV), was overcharged and billed \$165,632 due to an accounting error. The LAV contract is a cost reimbursement type contract which requires ULS to expend funds before requesting reimbursement from DOJ. The costs which were requested for reimbursement were actually charged to another contract resulting in a double billing for the same costs.

Recommendation

We recommend that ULS review all contracts they are awarded and discuss key provisions with accounting personnel. As a result of the \$165,632 overcharge, ULS should refund the amount to DOJ.

Management's Response

DOJ grant funds may be used for legal work that is also supported by other funding agencies. We failed to allocate our billings to these various sources to maximize the amount of revenue over dissimilar grant periods. After the close of the audit year, we discovered that the two year DOJ grant, which includes a cash match planned for the fourth quarter of each year, was instead billed to DOJ for that period. This would have expended the bulk of the contract in its first year and grant funds would have been exhausted halfway through the second year of the contract. We proposed and have already implemented the return of that quarter's billing to DOJ, with DOJ's approval. Billing that quarter to other funding agencies recognizes our intent to draw down all funds as equally as possible given the disparate grant periods. We appreciate DOJ's recognition of the plan for spending the funds and their approval of the revision.

Reportable Conditions - Continued

Condition

During our compliance testing, it was noted that in one out of 60 case files examined, verification of U.S. citizenship was not documented in the case file.

Recommendation

We recommend that ULS provide training to intake personnel to ensure that U.S. citizenship is documented in all case files.

Management's Response

We will emphasize this issue in our periodic training with intake personnel and other staff.

Condition

During our compliance testing, it was noted that in one out of 60 case files examined, a case was closed on September 29, 2006 when substantially all work was completed by August 17, 2005.

Recommendation

We recommend that ULS close all cases timely and periodically review all open cases to ensure they are closed in a timely manner in the case reporting system.

Management's Response

We will emphasize this issue in our periodic training with staff, and our managers will regularly review open cases to ensure they are closed timely.

Management Points

Condition

During the course of fieldwork, it was noted that the Organization had an LSC fund balance in the amount of \$357,551. This exceeds the allowable fund balance by \$174,232. In accordance with regulation 45 CFR 1628, the Organization, without prior approval, may not expend LSC funds carried over from one year to the next in excess of 10% of LSC support.

Recommendation

We recommend that ULS request a waiver to allow them to properly expend the carryover funds and in future years expend LSC funds in accordance with regulations.

Management's Response

We have requested a waiver from LSC to carry over the excess fund balance to next year in the amount of \$174,232. We have preliminary data from our legal needs survey and are moving ahead with strategic planning, the hiring of new staff, the opening of a new office and the expansion of priorities so that we will be significantly spending down our reserves. We anticipate our request will be approved.

Condition

During our cash disbursement test, it was noted in one out of 25 items tested, a disbursement was made without proper authorization and was not stamped paid when the check was issued.

Recommendation

We recommend that ULS carefully review supporting documentation pertaining to cash disbursements particularly as it pertains to approval and cancellation of supporting documents.

Management's Response

We will do so.

Management Points - Continued

Condition

During our payroll test, it was noted that in one out of 25 items tested, funds were directly deposited into an employee bank account without a proper authorization in the employees file.

Recommendation

We recommend that all payroll transactions requiring direct deposits have proper authorizations in personnel files.

Management's Response

We will ensure this is the case.

Condition

Throughout the audit period, ULS has complied with and fallen out of compliance with regulations regarding composition of ULS Governing Board. Regulation 45 CFR 1607 requires the Board to be comprised of at least 60% McCollum positions and 33% filled with clients or former clients.

Recommendation

We recommend that ULS fill the board with the required persons so as to comply with this regulation.

Management's Response

Meeting the required number of client eligible board members has been an ongoing challenge for us. Silvia Pena, the attorney in charge of our legal needs survey, has developed a number of new contacts through that process and is now tasked with recruiting a new core of client eligible members. We hope to overcome this challenge in this next year.

Management Points - Continued

Condition

During the cash disbursement test, it was noted that a check was voided; however, it was not voided in the accounting system.

Recommendation

We recommend that accounting personnel carefully review bank reconciliations for items that require adjustment in the accounting system.

Management's Response

We will do so.

Condition

During our compliance testing, it was noted that the Semi-annual Report on Case Information Disclosure for the six months ended December 31, 2005, is due by February 1, 2006. The report was filed on February 8, 2006, which is past the required due date.

Recommendation

We recommend ULS prepare and file the report as required by the regulations.

Management's Response

We will do so.



UTAH LEGAL SERVICES, INC.

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Fax: (801) 924-3194

October 17, 2006

Burnham & Schumm, P.C.
Salt Lake City, Utah

We are providing this letter in connection with your audits of the statements of financial position of Utah Legal Services, Inc. as of June 30, 2006 and 2005 and the related statements of activities, functional expenses, and cash flows for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets, and cash flows of Utah Legal Services, Inc. in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

In regards to the nonattest services performed by you, which include drafting the financial statements and the related foot notes and preparation of your federal tax return form 990, we have:

- a. Made all management decisions and performed all management functions.
- b. Designated an individual with suitable skill, knowledge, or experience to oversee the services.
- c. Evaluated the adequacy and results of the services performed.
- d. Accepted responsibility for the results of the services.
- e. Established and maintained internal controls, including monitoring ongoing activities.

We confirm, to the best of our knowledge and belief, as of October 17, 2006, the following representations made to you during our audits.

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and includes all assets and liabilities under the Organization's control.

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Provo
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Cedar City
965 S. Main #3 • 84720
(435) 586-2571
1-800-662-1772

 **LSC**

- b. Guarantees, whether written or oral, under which the Organization is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
- 11. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
- 12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or financial data significant to the audit objectives.
- 13. Utah Legal Services, Inc. is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
- 14. There are no -
 - a. Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies.

UTAH LEGAL SERVICES, INC.
STATEMENT OF ADJUSTMENTS PASSED
JUNE 30, 2006

<u>Description</u>	<u>Debit</u>	<u>Credit</u>	<u>(Over)Under Balance Sheet Effects</u>	<u>(Over)Under Income Statement Effects</u>
Reversal of June 30, 2005 Soap AJE's				(9,499)
1. Interest Income	188.96			
Bank of the West CD		188.96	(189)	(189)
To Reverse Over Accrual on CD Interest				
2. Prepaid Expense	1,790.06			
Library Software		1,790.06	1,790	1,790
To Record Prepaid MIP Software License				
3. Prepaid Expense	2,355.55			
Postage		2,355.55	2,356	2,356
To Record Prepaid Postage at 6/30/06				
4. Library Maintenance	2,714.00			
Library Maintenance	1,073.01			
Contract, Other	1,300.00			
Accounts Payable		5,087.01	(5,087)	(5,087)
To Record Unrecorded A/P				
5. Prepaid Insurance	114.75			
Insurance Expense		114.75	115	115
To Adjust Prepaid Insurance to Actual				
6. Checking	1,054.24			
Miscellaneous Expense		1,054.24	<u>1,054</u>	<u>1,054</u>
To Record Void Check				
			<u>39</u>	<u>9,460</u>